

Commander  
Research Systems

MEMORANDUM FOR: Sayre Stevens  
DDI

[redacted] made his presentation to the Production Board this morning but it was not quite as articulate as I had hoped it would be. He provided me these talking points last week for my review and I believe this talking paper provides a satisfactory rationale for his proposed study. Please consider this talking paper as you give some thought to the [redacted] proposal in this coming week.

[redacted]  
AD/CPS

Date 1 August 1977

FORM 101 USE PREVIOUS EDITIONS

I would like to make a few introductory remarks which perhaps didn't come through clearly last week:

°The fundamental point is that the defense industries are alleged to operate in an institutional setting which is different from the rest of the economy (secrecy, organizational differences, the military representative system, favorable pricing practices, priority status). Therefore, to discern the full range of the defense-industrial operating characteristics, a study of all the defense industries is required. Without a study of all these industries, we would probably miss some operating characteristics (particularly those reflecting interactions between the industries) which may be important for issues of defense burden, relative efficiency, technology development and acquisition from abroad and the ways in which technology is used. The type of study we are proposing has not been done.

°The RDT&E Task Force is principally concerned with the resource commitment in the RDT&E phase which covers

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It is not looking at relationships in the production phase or with the institutional features cited above that impact on the relative civilian-defense efficiency

issues or defense burden. It is in the production phase that the real impact on the economy is felt.

°The proposal should not be described as a survey.

There is no attempt to dig up every scrap of information, catalog it and put it in a slot in a large NIS-style encyclopedia of findings, both trivial and important. We are preparing lists of issues and knowledge gaps in the key areas (and will expand the list during the 2-month mapping phase) which will be guidance for the group in their research. We are trying to point the study at meaningful questions.

°We believe that CPS should have a strong hand in this study because the key issues and the substantive knowledge come from various offices. Our hope is to insure balanced treatment of issues of interest to various offices in the individual studies. This is an interdisciplinary study.

To turn to the immediate task, I believe the question asked of me last week was to look at the status of finished work on these industries to determine how thoroughly the subjects of the proposed study have been covered. This was a quick survey which relied on ~~the~~ information provided by the individuals listed in the proposal.

°In general, work on these industries has been chiefly in the quantitative area and oriented to procurement by the military of the end-products. Structural studies have been confined to the very highest bureaucratic layers (e.g. the VPK and some of its relations with other parallel groups) and the military procurement system. There has been a good deal of excellent work on R&D aspects. But none of these studies have groped with the topics raised in the outline. None of the studies have covered areas of concern in technology transfer, such as how important is western technology to the defense industries.

°One or two line summaries for the individual industries would run about like this:

Radio and Electronics: published intelligence community issuances have been narrowly focused on the specific product or technology of subsectors

and are predominantly related to specific military capabilities or systems. "The approach outlined in the proposed industry studies is not covered in any single or combination of recent publications."

(Last study was OER's circa 1970 study on semi-conductors and 1974 study on integrated circuits).

Shipbuilding: Two large OSR studies are in process, one a pricing model for civilian shipbuilding and one a structural study like the ones proposed here, but the latter is heavily oriented to procurement aspects--not fully exploiting the other aspects or dealing with relative efficiency or technology transfer questions. A DIA study published two months ago was quantitative and there is a 5-year-old Navy study on US-USSR relative efficiency which was not well regarded locally.

Aviation: There is an unpublished [ ] study of growth in facilities over time and including lots of pipes-and-plumbing organizational information. Five years ago [ ] studied production and acquisition of aircraft in the USSR, France, and the USA. Apparently, there has been no published work on our questions, but much effort has been put in at FTD in Columbus, which we may not be fully aware of.

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General Machinebuilding: OWI has ten projects in the mill which I think will be major revelations on many of the issues addressed, although these studies are basically R&D oriented and concerned with weapon analysis. The key point, however, is that these studies focus on very specific details

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STAT In [REDACTED] words, "your questions go beyond what is being done now." OWI wants to continue building its "resource base," but I think the rest of us need their expertise generalized now. <sup>Moreover,</sup> ~~However,~~ I would like to see this work pivoted on its base a little to cover economic, defense burden and technology issues. Finally, I feel that these studies are instructional for us all in how to go about analysis of these industries.

Medium Machinebuilding: Publications have been few. On weapon aspects, the work has been quantitative and weapon oriented. There has been some work on labor force comparisons (US & USSR) with an eye to relative efficiency. There has been no finished production on the qualitative issues raised in the outline. Old sources of information

have dried up but new sources  
offer new opportunities.



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Defense Industry and Machinebuilding: As with the other industries, there has been no comprehensive analysis of the workings of these industries but there have been many FTD, FSTC and NSA products treating specific weapon systems and thereby including some commentary on these industries. OWI's missile work often carries in backward in the production process to specific areas of the Ministry of Machinebuilding.